CED Public Policy Watch
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1. DEVELOPMENTS ON UKRAINE

As the war in Ukraine reached 100 days on Friday, fierce fighting and bombing continued in eastern Ukraine, notably around Severodonetsk, where a chemical plant was hit and Russia now controls around 70 percent of the city. President Zelensky estimated that Russia controls 20% of Ukraine and noted that "[t]he situation is very difficult," with losses of 60-100 soldiers per day killed and 500 wounded, even as Ukraine is "holding our defensive perimeters." A Western defense official stated that Severodonetsk "is unlikely to be the crux" of the Donbas campaign, predicting that the war could last "to the end of the year" based on Russian forces' average movement of 500-1,000 meters per day and the "further challenging operational objectives" it faces elsewhere in Donbas, in particular any attempt to take the city of Kramatorsk. Russian cruise missiles launched from the Black Sea also attacked infrastructure near the western city of Lviv.

President Biden announced that the US will send HIMARS (High Mobility Artillery Rocket Systems) to Ukraine. But the systems will not arrive for several weeks, and the President said that the systems will not be used to attack targets inside Russia (the systems will not include longer-range munitions), a condition to which Ukraine has agreed The Kremlin reacted angrily, saying that the US "is deliberately and diligently 'pouring fuel on the fire'"; Ukraine's defense minister Oleksii Reznikov said that the aid was "the six letters for which the whole country has been waiting: HIMARS." Dismissing concerns about the HIMARS going to Ukraine, Secretary of State Anthony Blinken said the US had told Russia before the war that it would provide advanced weaponry to Ukraine if the country were invaded. Other countries announced new military aid packages, including eight Zuzana 2 howitzers from Slovakia and an IRIS-T air defense system and tracking radar from Germany.

After meeting with President Biden on Thursday, NATO Secretary General Jens Stoltenberg commented that "[w]ars are by nature unpredictable, and, therefore, we just have to be prepared for the long haul, because what you see is that this war has now become a war of attrition where the Ukrainians are paying a high price for defending their own country on the battlefield. But also we see that Russia is taking high casualties. Our responsibility is to provide support to Ukraine." Stoltenberg said NATO military support was designed to help "achieve the best possible outcome of this conflict . . . . to ensure that Ukraine remains an independent, sovereign democratic nation in Europe and that President Putin is not rewarded for his aggressive actions." Stoltenberg also noted NATO's strong "responsibility to prevent this war from escalating to become a full-fledged war between Russia and NATO that will cause even more death, even more destruction and more damage. . . . We provide support to Ukraine, but we're not part of the conflict." New US Ambassador to Ukraine Bridget A. Brink arrived in Kyiv.

Nearly 67 percent of Danish voters approved the country joining the EU's Common Security and Defence Policy, from which it had received an opt-out in 1992. Most Danish political leaders supported the move, with Prime Minister Mette Frederiksen saying that when "it's war again on our continent, you cannot be neutral." The change will permit Denmark, already a NATO member, to participate in EU military missions and discussions of defense and security policy at EU meetings. Denmark had already approved an extra $1 billion in defense spending over the next two years.

The EU reached agreement on a new sanctions package that will cut off Russian oil from the EU, with the exception of oil arriving by the southern section of the Druzhba pipeline, a concession to Hungary. The Slovak and Czech Republics also receive Russian oil via that section of the pipeline (which runs through Ukraine), while the ban will apply to its northern branch which serves Poland and Germany. The sanctions are expected to reduce imports of Russian oil to the EU by 90 percent by the end of the year. Additional sanctions include banning the largest Russian bank, Sberbank, from access to the SWIFT system and sanctions against state-owned broadcasters and individuals responsible for war crimes in Ukraine, according to European Council President Charles Michel. But Hungarian opposition also meant that proposed sanctions against Patriarch Kirill, head of the Russian Orthodox Church, were dropped.

In the continuing dispute over paying for gas in rubles, Russia has now cut off gas supplies to trading companies in the Netherlands (GasTerra), Denmark (Ørsted, and Germany (Shell Energy). This follows earlier cutoffs to Finland, Poland, and Bulgaria. Russia has supplied about 15% of the Netherlands' gas; the country had already planned to end use of Russian fossil fuels by the end of 2022.

Russia is apparently proposing to pay foreign Eurobond holders using a similar double payments scheme that the EU has approved for payments to Gazprom for Russian gas. Finance Minister Anton Siluanov stated that "As happens with paying for gas in rubles: we are credited with foreign currency, here it is exchanged for rubles on behalf of [the gas buyer], and this is how the payment takes place. The Eurobond settlement mechanism will operate in the same manner, only in the other direction." The money would be paid not to the Russian Central Bank but to its National Settlement Depository, not currently under sanctions. It is unclear whether this mechanism will be acceptable to Western bondholders or governments. Russia missed a $1,900,000 bond payment due this week but has a grace period.

The US announced new sanctions on Thursday against Russian officials and elites, focusing on efforts to evade sanctions and "complex support networks to hide, move, and maintain their wealth and luxury assets," according to Brian Nelson, Undersecretary of the Treasury for Terrorism and Financial Intelligence. Sanctioned individuals include "God Nisanov, a close associate of Russian officials; Maria

Zakharova, spokesperson for the Russian Foreign Ministry; and Alexey Mordashov, one of Russia's wealthiest billionaires, in addition to his family members and companies, including one of Russia's leading domestic steel producers."

The President also suspended, for one year, tariffs on Ukrainian steel imports that were originally imposed in 2018, noting that the United States and Ukraine "have developed a close security relationship" and that "Ukraine's steel industry has been significantly disrupted" by the Russian invasion while the US and Ukraine "have an interest in maintaining [the steel] industry as an economic lifeline while the country recovers." Ukraine accounted for less than one percent of all steel imported into the US in 2021 but has been a globally important exporter, with $13.14 billion of iron and steel exports last year. Separately, on Tuesday Canada sanctioned four Russian financial institutions and Alina Kabaeva, reported to be close to President Putin.

Intense diplomatic efforts continued to arrange for export of Ukrainian grain to avoid worsening the global food crisis. Senegalese President Macky Sall, who holds the current presidency of the African Union, stated that the Russian blockade of Ukrainian exports could lead to "a catastrophic scenario" of food shortages in Africa. President Putin spoke with Turkish President Recep Tayyip Erdoğan and claimed that Russia was ready to cooperate in the export of grain from Ukrainian and Russian Black Sea ports "in coordination with Turkish partners." Putin also called for sanctions to be lifted so that Russia could "export significant volumes of fertilizers and agricultural products." (Fertilizer and agricultural exports from Russia are generally not subject to the current sanctions.) About 20 million metric tonnes of grains await export from Ukraine. Ukraine has proposed the UN lead an international naval operation to ensure safe food exports by sea.

In response, US Ambassador to the United Nations Linda Thomas-Greenfield proposed giving "comfort letters" to shipping and insurance companies to promote exports of Russian grain and fertilizer, noting that even though those goods are not covered by sanctions, "companies are a little nervous and we're prepared to give them comfort letters if that will help to encourage them." NEED Exports of Russian fertilizer may be key to a deal that the UN is hoping to broker with the Russian government. The UN described its latest talks in Moscow as "constructive."

2. UNEMPLOYMENT CLAIMS AND JOBS REPORTS

Initial claims for unemployment insurance (UI) decreased by 11,000 to 200,000 for the week ending May 28 (last week's claims were revised up by 1,000). The four-week moving average, which smooths out volatility, declined slightly for the first time since April and stands at 206,500. Continuing claims (on a one-week lag) remain historically low at 1.31 million.

This week, the Bureau of Labor Statistics reported the April estimates from the Job Openings and Labor Turnover survey. Job openings decreased slightly to 11.4 million but remained elevated at or above 11 million for the seventh consecutive month. Quits held relatively steady at 4.4 million. The number of layoffs and discharges hit a series low of 1.2 million, suggesting that employments are unwilling to let employees go in what may be the tightest labor market ever. Together, the continuing UI claims, high job openings, and low separation level show that any recessionary fears have not yet hit the job market.

In April, 17 states hit record low unemployment rates. Two additional states, Oklahoma and Arkansas, hit record lows earlier this year. Extremely low unemployment rates are yet another signal of labor market tightness. The low unemployment rates are resulting from increased consumer demand and the need for businesses to increase capacity to fulfill that demand while there is less labor supply to fill those jobs.

Employers added another 390,000 jobs to their payrolls in May bring total job gains so far for 2022 to 2.44 million jobs. Notable job gains occurred in leisure and hospitality (84,000), but employment in the industry is still down 7.9 percent from the pre-pandemic February 2020 level. Professional and business services added 75,000 jobs and transportation and warehousing added 47,000; employment in both industries has surpassed pre-pandemic levels. Average hourly earnings increased by $0.10, or 0.3 percent, to $31.95 in May. Over the past 12 months, average hourly earnings have increased by 5.2 percent.

The unemployment rate held steady at 3.6 percent. Both the labor force participation rate, at 62.3 percent, and the employment-population ratio, at 60.1 percent, were little changed. Both measures are 1.1 percentage points below their February 2020 levels.

3. THE ADMINISTRATION ADDRESSES INFLATION

There were several developments this week as the Administration renewed its emphasis on addressing growing inflation concerns. The President wrote an opinion piece in the *Wall Street Journal* stating that while the US "is in a better economic position than almost any other country" and "may grow faster this year than China's economy for the first time since 1976," he understood concerns about inflation. The President wrote that "past presidents have sought to influence its decisions inappropriately during periods of elevated inflation. I won't do this," agreeing with the Fed's "assessment that fighting inflation is our top economic challenge right now." He also proposed other domestic policy steps to combat inflation, including "passing clean energy tax credits and investments" to "reduce the average family's annual utility bills by $500 and accelerate our transition from energy produced by autocrats"; "fixing broken supply chains"; "reducing the federal deficit, which will help ease price pressures," including through providing additional resources for the IRS "to collect taxes that Americans already owe," "level the playing field so companies no longer have an incentive to shift jobs and profits overseas. And we should end the outrageous unfairness in the tax code that allows a billionaire to pay lower rates than a teacher or firefighter." He also proposed other actions on housing, letting Medicare negotiate the prices of prescription drugs, and "lower[ing] the cost of child and elder care to help get parents back to work."

Appearing on CNN, Treasury Secretary Janet Yellen said that "I think I was wrong then about the path that inflation would take" when asked about her 2021 comments that inflation was only "a small risk." She pointed to "unanticipated and large shocks to the economy that have boosted energy and food prices and supply bottlenecks that have affected our economy badly that I didn't -- at the time -- didn't fully understand, but we recognize that now [.]"

Fueling debate over faster interest rate hikes from the Federal Reserve, on Wednesday, St. Louis Fed President James Bullard said in remarks to the Economic Club of Memphis that he believes "we're on the precipice of losing control of inflation expectations" and thus "it is important for the Fed to take action today that's credible, that will keep inflation expectations low and stable [.]" Bullard is worried about "persistent" inflation and wants the Fed "to move more quickly than we have in past tightening cycles," saying "[i]t seems to me we want to move as quickly as we can…to get downward pressure on inflation and make sure we keep inflation under control so we don't have a decades long problem on our hands" and expressing hope that the Fed funds rate will rise to 3.5 percent by the end of the year (the current expectation is that the Fed funds rate will be between 1.75 and 2 percent by the end of July after two more rate increases).

4. SOCIAL SECURITY/MEDICARE TRUSTEES REPORTS

On Thursday, the Treasury Department issued the annual reports of the Social Security and Medicare Trustees. While the outlook for both programs is slightly better than in last year's reports, the overall picture remains difficult, with fiscal shortfalls expected in 13 years for Social Security and 6 for Medicare. Treasury stated that "Costs of both programs will grow faster than gross domestic product (GDP) through the mid-2030s primarily due to the rapid aging of the U.S. population. Medicare costs will continue to grow faster than GDP through the late 2070s due to projected increases in the volume and intensity of services provided."

What most Americans think of as their Social Security payment (formally the "Old Age and Survivors' Insurance Trust Fund") "will be able to pay scheduled benefits" until 2034 -- a year later than the Trustees had estimated last year. After that date, "continuing tax income [into the program] will be sufficient to pay 77 percent of scheduled benefits" without changes to the program or to tax rates. The separate Disability Insurance program "is no longer scheduled to be depleted" over the 75-year period for which estimates were made (last year's estimate had the program depleted in 2057); the Trustees also assumed a slight reduction in the number of people receiving Disability Insurance payments.

Medicare's Hospital Insurance Trust Fund (Medicare Part A), however, faces a fiscal shortfall in 2028. While this is two years later than the Trustees estimated last year, the report nevertheless highlights that Medicare's fiscal situation demands urgent attention. After 2028, Medicare Part A would be sufficient to pay only "90 percent of total scheduled benefits" without changes to the program. Because annual tax and premium revenues of Medicare's combined funds are projected to be below "55 percent of combined annual outlays within the next 7 fiscal years," the Medicare Trustees once again declared a legally-required Medicare funding warning, with Treasury noting that "[u]nder current law and the Trustees' projections, [the] warnings will recur every year" for the 75 years for which they have made projections. This is the sixth consecutive year the Trustees have bee required to issue the warning.

5. NEW YORK STATE GAS TAX HOLIDAY/CONGRESSIONAL EFFORTS

Implementing a state budget deal agreed in April to suspend the gasoline tax from June 1 to the end of the year, Governor Kathy Hochul announced that the economic impact would be about $609 million. New York joins several other states that have adopted similar measures, including Connecticut, Florida, and Georgia, while Illinois delayed a rate increase. (Maryland's 30-day suspension after the invasion of Ukraine has expired.) In March, six Governors (of Colorado, Michigan, Minnesota, New Mexico, Pennsylvania, and Wisconsin) proposed a suspension of the 18c/gallon Federal gas tax in endorsing the proposed Gas Prices Relief Act (H.R. 6787 and S. 3609), which would authorize Treasury to use general revenue funds for highway construction instead of gas tax funds in the Highway Trust Fund during the suspension. The Governors also pointed to the $118 billion authorized for the Highway Trust Fund under the Bipartisan Infrastructure Law as support for the proposed suspension. Rep. Adam Schiff (D-CA) introduced a bill for suspension of the Federal gas tax with a new tax on oil companies' "excess" profits.

6. OPEC INCREASING PRODUCTION

The Organization of Petroleum Exporting Countries and other countries in the OPEC+ grouping have agreed to increase oil production by 648,000 barrels per day during July and August, a major step towards reversing the cuts made as the pandemic was beginning in 2020, though still less than the 1 million barrels per day lost to global markets with sanctions against Russian oil. The White House responded that “[w]e recognize the role of Saudi Arabia as the chair of OPEC+ and its largest producer in achieving this consensus amongst the group members. We also recognize efforts and positive contributions of UAE, Kuwait, and Iraq. The United States will continue to use all tools at [its] disposal to address energy prices pressures.” During his trip to Europe and Israel later this month, the President is now also expected to visit Saudi Arabia, where he is likely to meet Crown Prince Mohammed bin Salman among other officials.

7. NEW BILLS PROMOTING TELEHEALTH

Two bills introduced in Congress this week focus on expanding access to telehealth. The bipartisan Kidney Health Connect Act (NEED) would permit “dialysis clinics to serve as originating sites for telehealth services and ensures patients are not responsible for any additional fees associated with their use.” The legislation would permit dialysis patients to receive telehealth services from other providers outside the clinic while receiving dialysis and waive the current 20 percent coinsurance obligation under Medicare for these additional services.” The Connecting Rural Telehealth to the Future Act proposes to extend all telehealth provisions of the FY 2022 omnibus Consolidated Appropriations Act until December 31, 2024; permanently permit the use of audio technologies for certain telehealth services including behavioral health; revise the methods by which telehealth services are reimbursed for defined Rural Health Clinics and Federally Qualified Health Clinics; and permit Critical Access Hospitals serving rural regions to bill directly for telehealth services, which they can do currently under pandemic-related waivers.

8. PANDEMIC NEWS

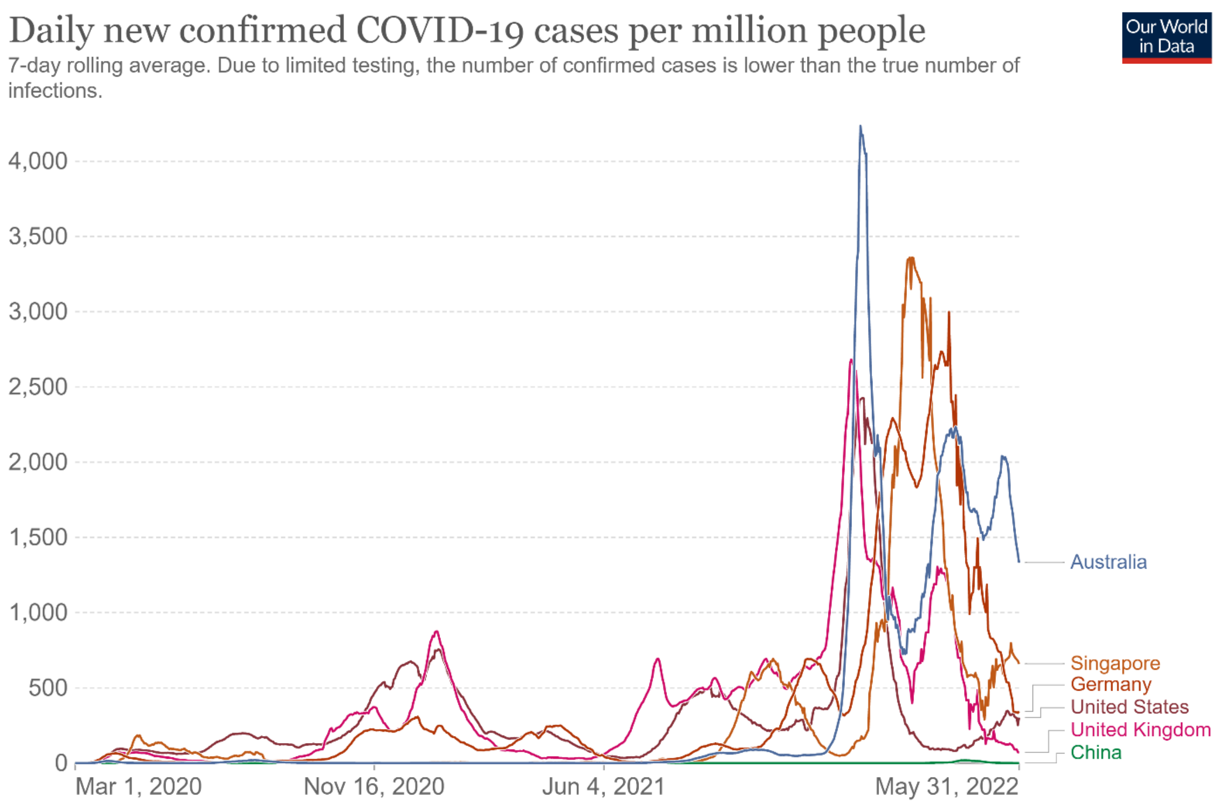
A study published in Nature Medicine found that vaccination had only a slight protective effect against long COVID. Having been vaccinated against COVID-19 appeared to reduce the risk of lung and blood clot disorders but did little to protect against most other symptoms. The study was based on 33,940 individuals who experienced breakthrough infections following vaccination. The study found no difference between vaccinated and unvaccinated study participants for longer-term risks of neurological issues, gastrointestinal symptoms, and kidney failure.

Singapore, which has monitored pandemic data very closely, has warned of an expected new COVID-19 wave this July or August, driven by the BA.4 and BA.5 subvariants of Omicron, first detected in South Africa in January and February. Currently, the BA.2.12.1 subvariant is most prominent in many countries, including the United States, but BA.4 and BA.5 are becoming more widespread, with BA.4 and BA.5 cases in the United States increasing 79 percent over the last week. Singapore Health Minister Ong Ye Kung notes that every healthcare setting must be prepared, from nursing homes to community hospitals, so that public hospitals do not became overwhelmed as they did during the primary Omicron wave. "Every healthcare setting needs to be Covid-ready, to be able to handle your own infections, take care of them in situ," Mr. Ong said on Thursday. The estimated daily growth advantage for BA.5 over BA.2 is 13 percent. The high growth rate is likely due to the variant’s ability to evade immune protection induced by prior infection and/or vaccination. A paper recently published to a preprint site (not yet peer reviewed) states that “BA.2.12.1 is only modestly (1.8-fold) more resistant to sera from vaccinated and boosted individuals than BA.2. On the other hand, BA.4/5 is substantially (4.2-fold) more resistant and thus more likely to lead to vaccine breakthrough infections.”

Globally, a WHO study has determined that more than two-thirds of the world's population has COVID-19 antibodies, meaning they have either been infected or were vaccinated – or both. Blood sample studies indicated a large surge in antibodies in 2021; seroprevalence rates surged to 67 percent in October, up from 16 percent in February 2021. Data show lower levels of seroprevalence in children aged 9 and under and in people over 60 compared with individuals in their 20s, the WHO said. In low- and middle-income countries, most seroprevalence indicates past infections rather than vaccinations.

9. COUNTRY SPOTLIGHT: CHINA

After 65 days of economic loss and despair, Shanghai’s draconian COVID-19 lockdown came to an end at midnight Wednesday morning. Most of Shanghai’s 25 million residents are now free to leave their homes, return to work, and use public transportation. Residents celebrated the change by picnicking and walking along open-air plazas for the first time in over two months. Retailers are hoping to see a quick “vengeful” return of shoppers similar to what was seen in 2020 when the city reopened after its initial battle with the virus. Jason Yu, Greater China managing director of market research firm Kantar Worldpanel, predicts an initial spending recovery of “categories related to pleasure” to come back strongly. Chinese state media has downplayed resident celebrations because authorities had been reluctant to define the restrictions as a “lockdown.”



Source: Johns Hopkins University CSSE COVID-19 Data

Despite the celebrations, significant restrictions remain in place. At least 650,000 residents remain confined to their homes in areas classified as "sealed off" or "closed off" zones. To enable officials to monitor strictly the movement of people, the government is requiring residents to show a green health code on their smartphone to leave their housing compound and access most establishments. Restaurants have been given the green light to resume serving, but dining remains prohibited. Cinemas, gyms, and museums will remain closed, and most children will not return to face-to-face schooling. Those who plan to use public transportation or enter public establishments will be required to show a negative PCR test no older than 72 hours.

Nationally, China is reporting the fewest number of cases in over three months, at 61, and a June 2 headline in the People's Daily newspaper stated that "Great Achievements Have Been Made in the Defense of Shanghai" -- signs that China is unlikely to shift from zero-COVID soon. China is also doubling down on mass testing. A network of tens of thousands of lab testing booths are being set up across China's most economically vital cities, with the goal of all residents living just 15 minutes away from a testing point. The new testing infrastructure will allow residents in cities such as Beijing and Shanghai the ability to test every 48 hours, with negative tests needed to enter public establishments or use public transportation. Researchers at China's Tsinghua University designed robots to automate the swabbing process. The investment clearly underscores China's commitment to its zero-COVID policy.